

**Evaluation of Survivor Annuity Work Deductions
at the Railroad Retirement Board, Report No. 05-07, July 14, 2005**

INTRODUCTION

This report presents the results of the Office of Inspector General's (OIG) evaluation of the Railroad Retirement Board's (RRB) processing of survivor annuity work deductions.

BACKGROUND

The RRB's mission is to administer retirement and survivor insurance benefit programs for railroad workers and their families under the Railroad Retirement Act. The RRB also administers unemployment and sickness insurance benefit programs under the Railroad Unemployment Insurance Act. During fiscal year (FY) 2004, the RRB paid approximately \$9.1 billion in benefits to annuitants and railroad employees, including \$2.1 billion in survivor annuity benefits.

Survivor annuities are meant to replace, in part, earnings lost to an individual or a family because of death of the covered worker. Generally, survivor annuities are payable to widows, widowers, and unmarried children. In certain cases, benefits are also payable to parents, remarried widow(er)s, grandchildren and surviving divorced spouses. Eligibility for survivor benefits depends on a covered worker's eligibility status at the time of death.

Full retirement age ranges from age 65, for those born before 1940, to age 67, for those born in 1960 or later. Survivor annuitants who have not yet attained full retirement age may be subject to deductions for any employment earnings that exceed certain exempt amounts. Prior to the calendar year in which full retirement age is attained, the work deduction is \$1 in benefits for every \$2 of annual earnings exceeding an exempt amount. This amount was set at \$11,640 in 2004. No benefit is paid for any month in which the survivor annuitant works for a railroad employer.

Survivor annuitants under full retirement age who work after retirement and expect that their earnings for the year will be more than the annual exempt amount must promptly notify the agency. They must furnish an estimate of their expected earnings in order to prevent an overpayment. The survivors are also required to notify the RRB if their original estimate of earnings changes significantly.

The RRB's Office of Programs is responsible for monitoring survivors subject to work deductions and adjusting survivor benefit payments for excess earnings. This office, with assistance from the Bureau of Information Services, performs computer data extractions with the Social Security Administration (SSA) to obtain earnings data for annuitants in current pay status.

The RRB 2003-2008 Strategic Plan contains relevant strategic goals to “provide excellent customer service” and “serve as responsible stewards for our customers’ trust funds and agency resources.” A related objective is to ensure the integrity of benefit programs and therefore, the RRB conducts comprehensive monitoring activities that identify and prevent erroneous payments. Effective procedures addressing this strategic goal and objective would ensure that the agency properly identifies work deductions and adjusts survivor annuity payments accordingly. This review directly assesses agency performance in these key areas.

Previous OIG inspections found deficiencies in agency controls designed to ensure that work deductions were applied to spouse annuities and disability annuities with excess earnings¹.

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of this evaluation was to determine if the RRB identified and applied work deductions to survivor annuities accurately and in a timely manner. The scope included survivor annuitants in current pay status and under full retirement age as of December 28, 2004, with an annuity beginning date of December 31, 2002 or earlier. We reviewed earnings for 2003 and earlier years². To achieve our objective, the OIG:

- Analyzed laws, regulations, policies, and procedures relevant to the survivor annuities and the work deduction process.
- Selected a statistical sample of 320 survivor annuitants to test for the accurate and timely recognition of earnings for work deductions. We obtained their earnings and reviewed agency records to identify cases with inaccurate or no recognition of earnings. Further details on the sampling methodology appear in Appendix I.
- Conducted meetings with officials in the Office of Programs to discuss questionable cases, and agency policies and procedures.
- Reviewed documentation from the Office of Programs on the SSA data exchange process.

This review was conducted in accordance with the President’s Council on Integrity and Efficiency’s “Quality Standards for Inspections,” as applicable to the objectives. The fieldwork was performed at the RRB headquarters in Chicago, Illinois from February through May, 2005.

¹ OIG Audit Report No. 04-10, Review of Spouse Annuity Work Deductions at the RRB, issued September 30, 2004 and Report No. 05-03, Evaluation of the RRB’s Processing of Disability Earnings Cases, February 11, 2005.

² Work deductions do not apply if the annuitant is older than full retirement age. We chose the 2003 earnings because 2004 were not available at the time of the audit.

RESULTS OF REVIEW

Our evaluation determined that the RRB is generally identifying and applying work deductions to survivor annuities accurately and in a timely manner. Based on our evaluation, we concluded that the incidence of unreported earnings for survivor annuitants is relatively low.

However, improvements should be implemented to identify and apply survivor work deductions more accurately and timely for:

- Survivor annuitants with corrected and delayed reporting of earnings,
- Cases rejected during the SSA computer extraction process, and
- Manually processed cases with temporary work deductions.

Our evaluation of 320 randomly selected survivors identified eight exceptions (2.5% exception rate) with \$22,125 in incorrect payments. Based on sample results, we estimate the number of survivor annuitants in current pay status with improper payments is 386 with a one-time financial impact of approximately \$1.07 million (Appendix I).

The details of our findings and recommendations follow.

CORRECTED AND DELAYED REPORTING OF EARNINGS

We found survivor cases with incorrect work deductions for which earnings were reported too late for inclusion in the SSA computer extract, or the earnings were subsequently corrected.

An annual earnings limit was established to restrict the amount of earnings a survivor annuitant may have. Timely and accurate reporting of earnings ensures that the agency properly adjusts annuity payments for work deductions.

The Office of Programs' monitoring process obtains, from SSA, a computer extraction of the annual earnings and employment data for all annuitants. Twice yearly, the agency obtains annual earnings and employment data for all annuitants that have reported their earnings for the prior year. The SSA earnings from these requests are usually received in May and September following the requested year.

The RRB does not request corrected earnings for prior years. In addition, the current timing of the SSA computer extraction does not obtain earnings reported or corrected after the September extract. RRB officials advised that they are considering a new timeframe to submit requests that may identify late reporting of earnings. They are contemplating annual requests to the SSA for the two preceding years. For example, in 2006, the RRB would request 2005 earnings for annuitants as well as earnings for 2004. Previously, the 2006 request would have been only for 2005 earnings; the latest request for 2004 earnings would have been September 2005. As a result, this new

process, if implemented, would provide additional months to identify any earnings reported late and/or subsequently corrected.

Because the RRB's existing procedure is not sufficient to identify corrected and late reports of earnings, some survivors may not have work deductions or may have deductions based on incorrect earnings data. The annuity payments for these survivor annuitants will be incorrect.

Recommendation

The OIG recommends that:

1. The Office of Programs implement the plan to revise the timeframe for requests to SSA to better identify corrected and late earnings reports.

Management's Response

The Office of Programs concurs with the recommendation and will implement the plan to revise the timeframe for SSA requests. Effective in May 2006, the agency will begin requesting earnings for two prior years in order to better identify corrected and late earnings reports for work deductions. A complete copy of the management's response is included as Appendix II to this report.

CASES REJECTED DURING THE SSA COMPUTER EXTRACTION PROCESS

Our review identified cases rejected during the SSA computer extraction process that are not always processed on a timely basis to apply work deductions.

Earnings in excess of the annual exempt amount may affect payments to the survivor annuitants under full retirement age. As a result, the RRB performs an earnings test to identify these annuitants. The SSA computer extraction process is a primary source of information for the earnings test.

When the RRB submits cases for the computer extraction of earnings, the SSA first verifies the social security number and name of the annuitant provided against SSA's records. Information such as the annuitant's name and social security number must agree with the SSA records or the case will reject and no earnings information will be provided. Rejected (unverified) cases are referred for manual review by RRB employees. The agency can then either resubmit a corrected case with the next SSA computer extraction, or obtain the earnings record of the corrected case individually through access to an on-line SSA database.

The Office of Programs does not have a consistent policy for processing rejected/unverified earnings cases. RRB officials are presently exploring options to identify and correct these cases in a timely manner, including front-end controls in the system

processing annuity applications and standardized procedures for handling rejected cases.

Because cases with unverified earnings were not resolved in a timely manner, the agency did not assess the correct work deductions and the annuity payments were incorrect.

Recommendation

The OIG recommends that:

2. The Office of Programs develop and implement a policy for handling rejected cases to ensure the timely and accurate processing of work deductions.

Management's Response

The Office of Programs agrees with this recommendation. The Office of Program's Assessment and Training Division is currently performing a special study of unverified survivor cases and will complete this study by October 3, 2005. At that time, the division will develop a target date for implementation of corrective actions. The full text of management's response is included in Appendix II.

MANUALLY PROCESSED CASES WITH TEMPORARY WORK DEDUCTIONS

Some survivor cases with temporary work deductions were not processed in a timely manner for their actual earnings. Survivor annuities are manually assessed temporary work deductions if the agency has only received an estimate for the current years' earnings. Temporary work deductions for survivor cases involve establishing a compensating offset amount so that there will be no overpayment when the actual earnings are available and the work deductions are finalized.

The Office of Programs staff should adequately control survivor cases with temporary work deductions to ensure accurate annuity payments. Staff are required to manually enter a tracing call-up into the agency tracking system to obtain certified earnings at a later date. Earnings are certified through signed reports from the annuitant or employer, or earnings reports secured from SSA. Once the earnings are certified, permanent work deductions are assessed to survivor annuities. Permanent annuity work deductions finalize what should have been paid during the year and are calculated by agency systems after staff enter the excess earnings information.

We found cases that had temporary work deductions that were not finalized by the Office of Programs' staff. The Office of Programs did not enter the required data to produce the tracing call-up to adjust the annuity payments for permanent work deductions once the certified earnings were received.

RRB officials have advised that the agency continues to develop and implement, in phases, the System Processing Excess Earnings Data (SPEED), which automates much of the work deduction processing. SPEED allows users to enter annuitant earnings information on-line and initiate adjustment, suspension, and reinstatement of the annuity payments based on the earnings data entered. RRB officials believe that the continual development of SPEED enhancements will significantly reduce the need to rely on agency staff to manually handle cases, and will therefore reduce the number of errors. However, full corrective action to resolve the temporary work deduction issue identified in this report can not be addressed until the next major enhancement of SPEED, which is still in the preliminary planning stages.

Because some survivors with temporary work deductions were not properly controlled, the agency did not assess the correct work deductions and the annuity payments were incorrect.

Recommendation

The OIG recommends that:

3. The Office of Programs issue a reminder notice to staff concerning the proper and timely handling of temporary and permanent work deductions.

Management's Response

The Office of Programs concurs and will issue a reminder notice to staff by August 31, 2005. The complete response is included in Appendix II of this report.

Sampling Methodology and Results – Survivor Annuity Work Deductions

Objective and Scope

The objective of our test was to estimate the number of survivor annuities for which work deductions were not properly reduced for earnings. This test supported our overall evaluation objective to determine if the RRB identified and applied work deductions to survivor annuities accurately and in a timely manner. We selected the sample from the population of 15,454 survivors under full retirement age and in current pay status as of December 28, 2004, with an annuity beginning date of December 31, 2002 or earlier.

Review Methodology

We used statistical estimation sampling using a 5% anticipated error rate, 5% precision and 95% confidence level, which yielded a sample size of 320. Estimation sampling is designed to approximate the frequency of a specific type of error in a universe. The sample size is set to provide assurance that the error rate will be estimated with a desired degree of precision.

Any incorrect calculation of the survivor work deductions was considered an error.

Results of Review

Our evaluation of 320 randomly selected survivors identified eight exceptions (2.5% exception rate) with \$22,125 in incorrect payments.

CAUSE OF INCORRECT CALCULATION OF WORK DEDUCTIONS	NUMBER OF EXCEPTIONS	DOLLAR VALUE
Corrected/Delayed earnings not on SSA extract	2	\$8,549
Unverified earnings due to SSA rejections	2	\$4,142
Temporary work deductions not finalized	2	\$8,182
Other isolated errors ³	2	\$1,252
Total	8	\$22,125
Projection based on 15,454 universe	386	\$1,068,500

³ Because these examiner errors were not systematic, the OIG has not discussed them in this report. However, they are included in the financial projection.

Based on sample results, we estimate that the number of survivor annuitants in current pay status with improper payments is 386. We also estimate a one-time financial impact of approximately \$1.07 million in overpayments and underpayments. At a 95% confidence level, the number of survivors in current pay status with improper payments could be as low as 170 or as high as 757.

Conclusion

Based on our evaluation, we conclude that the RRB's risk of overpayment due to unreported earnings for survivor annuitants is relatively low, and that most work deductions are applied accurately and timely.



UNITED STATES GOVERNMENT

MEMORANDUMFORM G-115f (1-92)
RAILROAD RETIREMENT BOARD

JUL 08 2005

TO: Henrietta Shaw
Assistant Inspector General, Audit

FROM: Catherine A. Leyser *Catherine A. Leyser*
Director of Assessment and Training

THROUGH: Dorothy Isherwood *D. Isherwood*
Director of Programs

SUBJECT: Draft Report – EVALUATION OF SURVIVOR ANNUITY WORK
DEDUCTIONS AT THE RRB

EVALUATION OF SURVIVOR ANNUITY WORK DEDUCTIONS AT THE RRB

Recommendation 1 The OIG recommends that:

The Office of Programs implement the plan to revise the timeframe for requests to SSA to better identify corrected and late earnings reports.

OP Response We agree. Effective in May 2006 we will request earnings for two prior years of work deductions. The most recent year will be the first request and the earlier year will be the second request, which will capture corrected and late earnings reports

Recommendation 2 The OIG recommends that:

The Office of Programs develop and implement a policy for handling rejected cases to ensure the timely and accurate processing of work deductions.

OP Response We agree. A&T is currently doing a study of the unverified survivor cases. That study will determine an ongoing process for handling these cases, as well as provide the basis for considering how to handle the cases on the rolls. We expect it to be completed by October 3, 2005. At that point we will be able to develop a target date for implementation.

Recommendation The OIG recommends that:
3

The Office of Programs issue a reminder notice to staff concerning the proper and timely handling of temporary and permanent work deductions.

OP Response We agree to issue a reminder notice on these cases. That will be done by August 31, 2005. As you point out, however, the real solution will come with the implementation of the System Processing Excess Earnings Data (SPEED) system.

cc: Director of Operations
Director of Survivor Benefits
Director of Policy and Systems
Executive Assistant
Chief of Calculation Analysis and Systems
Chief of Program Evaluation (UI/SI/DIS/FLD)
Chief of Program Evaluation (Ret/Surv/Medicare/Tax)
Chief of Training